



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Approved by: Chad R. Russell

Date: 8-Feb-2000

U.S. Agricultural Trade Office

GAIN Report #MX0016

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Market Brief - Product

Mexico : The Mexican Market for Organic Products

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Mexico ATO [MX2], MX

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I. Executive Summary

Organic and natural products have gained an important space in the world food market and a large number of countries have responded to this increasing demand by developing organic production systems and new ways of marketing these products. Mexico is part of this trend, although at this point it is more involved in producing for export than in importing organic products for the domestic market. At this point there are very limited opportunities for exports of organic products to Mexico due to the following reasons:

- 1) Strong domestic production of organic products
- 2) Lack of awareness on the part of consumers
- 3) Low purchasing power
- 4) Limited distribution channels, that are adequate for handling organic products

II. Domestic Production

Organic agriculture is a phenomenon that took root in Mexico in the early 80's. Its fast development, and strong social and economic impacts have been spectacular. The certification of land dedicated to organic products increased by more than 140 percent from 23,000 ha. in 1996 to 55,000 ha. in 1998. There are 137 zones throughout Mexico that have been incorporated into the organic movement, in which more than 30 different products are cultivated, such as coffee (with over 32,000 ha.); vegetables, including tomatoes, hot peppers, cucumbers, onions, garlic, peas, melons, squash, egg plants, etc. (with over 4,400 ha.); apples (with 2,300 ha.); sesame seeds (with 1,800 ha.); beans and chickpeas (with 1,250 ha.); blue corn (with 970 ha.); and other products with smaller areas such as peanuts, vanilla, sugar cane, bananas, avocados, cacao, pineapples, blackberries, mangos, strawberries, mint, ginger and other herbs and medicinal plants.

Currently there are around 28,000 producers of organic products in Mexico which fall into two main groups: the social sector of small producers and the private sector with large producers. The social sector represents around 95 percent of the organic producers in Mexico. This group is divided in Indian groups and low income producers, who together cultivate 89 percent of the land dedicated to organics and generate around 78 percent of the total income for this sub-sector.

In comparison, the participation of large producers in the private sector is still relatively limited, but they will most likely expand their operations in the near future given their economies of scale and better infrastructure. Although the production of organic products in Mexico is still a very small sub-sector, its economic impact is already considered very significant, creating approximately 8.7 million jobs, per year,

and US \$70 million in exports. However, its impact goes beyond these numbers as it constitutes a real alternative to typical agricultural production especially for small producers who have been suffering a general economic crisis, for some time.

The lack of information on new production technologies for organic products, in general, along with the certification and regulation process imposed by the Mexican Government for organic products, have been a barrier for the development of this method of production.

III. Organic Certification Requirements

As organic products are sold at higher prices than conventional products, consumers require an assurance that these products have been produced according to certain standards. This guarantee mechanism, or certification process, was detailed and published the Mexican Federal Register (Diario Oficial) on April 23, 1997. This "NOM" affects all agricultural products that are to be classified as organic produce. It is called "NOM-037-FITO-1995, "Requirements and Specifications for the Production of Organic Produce". A report on this NOM was prepared by the Office of Agricultural Affairs (OAA) at the U.S. Embassy in Mexico . It can be accessed via the FAS webpage: <http://www.fas.usda.gov>. Below is a brief summary of the document:

This NOM explains the characteristics that a product needs to comply with in order to be considered organic. The characteristics are as follows:

- a) The organic production lot is at least 10 meters away from other conventional lots.
- b) If during production, only the products listed in Appendix 1 of the Norm are used.
- c) The products listed in Appendix 2 of the Norm can only be used when special authorization is given by SAGAR (Secretariat of Agriculture, Livestock and Rural Development), which will only be granted when:
 - 1.1 Used to control pests and diseases where no other alternatives are viable and there is no direct contact of the product with the produce;
 - 1.2 Used as needed fertilizers when specifications cannot be met with the products in Appendix 1;
 - 1.3 If used to process produce only when their use is vital to assure the quality of the product;
 - 1.4 In all of the above cases there should be no contamination of the environment.
- d) Seed and vegetative material must be produced in compliance with this Norm for at least one generation or two growing seasons. For perennial species, there is a 24-month period before the produce can be considered organic. No genetically engineered plants may be used.
- e) There is a transitory period from 1995 to 1999 when the aforementioned will not take effect when it can be demonstrated that the plants and seeds are not available on the market.

- f) Labeling may be required by SAGAR for organic products which require the use of the products listed in Appendix 2.
- g) Production schedule, plans and registration must be done by the grower.

In addition to these requirements, the government of Mexico (GOM) established special regulations for labeling, processing and packing organic produce. These regulations include restrictions concerning methodology used, packing equipment and products used. All activities must be documented concerning processed products, ingredients used, production methodology and a diagram of the facilities must also be submitted. The transition period from conventional agricultural production to organic agricultural production is 36 months, although this period can be reduced depending on specific conditions.

Imported produce can only be sold commercially as organic when SAGAR, or an approved certified institution, can certify that the product complies with this Norm. SAGAR can request detailed information on production of the organic produce to be imported, require tests of produce, or can have the product sent to a laboratory.

IV. Requirements to Obtain Certification by SAGAR

Certification will be performed by authorized verification centers. General requirements which a grower needs to meet to be certified as an organic grower are:

- 2.1 Logging of all materials used for production, processing and packing, plus dates and lot registration.
- 2.1 Provide an exact description of the production area as well as production practices.
- 2.3 Allow verification visits.

Certification centers must keep records for five years and present regular reports to SAGAR. The centers must maintain the confidentiality of the information they have.

Interested exporters of organic produce to Mexico should review this Norm to see if their production practices comply with those stated above in order to be able to label their product as organic. Based on our understanding, the practices and products mentioned in this Norm do not differ from standard organic production systems.

In Mexico, the certification agencies are mostly foreign since 8 percent of Mexico's organic production is exported. In Mexico, 78 percent of the total production zones are verified by a certification agency and 92 percent are certified by foreign firms. The largest certification agency operating in Mexico is Organic Crop Improvement Association International (OCIA), from the United States which covers 43 percent of the verified areas. The second largest verification agency is Naturaland, from Germany, with 26 percent; and the third largest is Quality Assurance International, also from the United States with 10 percent of the

verified areas.

National certification is primarily conducted by the Colima University Certification Committee of Organic Products (CUCEPRO); by the Mexican certification agency Mexicana de Productos y Procesos Ecológicos, S.C. (CERTIMEX); and a civil association called DANA. Most of the products certified by these agencies are sold domestically. However, some of these companies work together with international firms in order to be able to export the products that they verify.

Certification costs tend to be higher in developing countries than in developed countries, where this cost only represents 0.3 to 5 percent of the total price of the product. In some cases, the product needs a double or triple certification, depending on the country of export destination, further elevating the cost. It is important to reduce these costs in Mexico to allow further growth in the organics industry.

V. Distribution Channels

Around 85 percent of Mexico's production of organic products is exported, primarily to the United States. The remaining 15 percent is sold through limited distribution channels in the domestic market. The trading companies that handle organic products in Mexico conduct marketing in conjunction with producers, at least with those that have the economic means to do so. In general, the most common ways of distributing these products are commission sales, contract sales, joint venture sales and direct sales.

1) Commission Sales:

More than 80 percent of Mexico's organic products are sold by commission, where the trading company or the broker charges a commission between 10-15 percent of the total price. Under this scheme of distribution the producer has to also pay the cost of production, harvest, packaging, transportation, duties etc. Therefore, the final price of these products is increased by 30 or 40 percent.

2) Contract Sales:

These are sales where the trading company and the producer agree to an "on-site" price depending on the lowest and highest prices in the conventional market without overpricing the product. In this case the trading company is responsible for paying the harvest, packaging, transportation and duties.

3) Sales by Joint Venture Contract:

In this case a fixed price is set and all the expenses from production to final sales are equally shared by the trading company and the producer. Utilities are also divided 50/50. These types of agreements are arranged prior to production.

4) Direct Sales:

This is the most privileged type of sale as intermediaries are avoided. Those enterprises that are their own trading companies tend to use direct sales. In this case a price is set for the product, ensuring the costs of distribution and other expenses, including utilities.

The total demand for organic products around the world constitutes a small, but growing market niche.

Total consumption of organic products represents less than two percent of total sales in the food industry. From a sales value point of view, however, the organic products sector has become a very lucrative market, with sales of over US\$10 billion per year world wide. It is expected that the demand for these types of products will grow rapidly in the medium term, increasing 30 percent in the United States and 40 percent in Europe, while the demand for conventional food products is growing at much lower rates (around three percent, per year). This trend will ultimately represent great opportunities for all producers of organic products, including those in Mexico.

VI. Post Contacts and Further Information

Organization	Section	Address	Telephone/fax Internet
Embassy of the United States Of America	U.S. Agricultural Trade Office	Jaime Balmes 8-201 Col. Los Morales Polanco 11510 Mexico City; Mexico	Tels:(011)(525) 2805277 Fax. (011)525 816093 ATOMexico@fas.usda.gov